SUPERMARKET BUSINESS

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VOLUME 46/NUMBER 10
OCTOBER 1991

C3125-1

Fresh Vegetable
Sales Up 15.3%

Fresh Fruit
Sales Up 7.2%

1991 PRODUCE OPERATIONS REVIEW

Down 0.9%

Tonnage
Down 7.9%

SUPERMARKET BUSINESS

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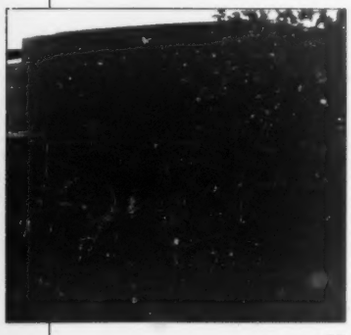

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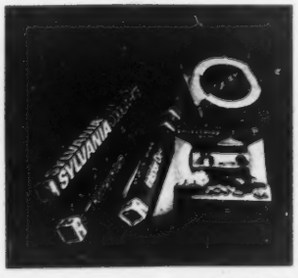

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FEATURES

LEAN RETAILING: AN IDEA THAT COULD MAKE FOR REVOLUTIONARY CHANGE MICHAEL J. O'CONNOR **29**

Typically, first-level supermarket employees are expected to do simple tasks with little thought; and supermarket suppliers are viewed as adversaries. This same mindless system once typified auto manufacturers...until they almost did themselves in. What can we learn from their experience?

KMART PLUNGES FEET FIRST INTO FOOD MIKE DUFF **31**

Kmart has big plans to repay the food business for stealing all those GM/HBA sales: It has a brand-new 148,000-sq.-ft. Super Kmart Center with a 53,000-sq.-ft. food store inside.

PRODUCE OPERATIONS REVIEW DAVID LITWAK & JANET TORRES CEPEDA **41**

Produce jumped a full point in share of store sales for 1990. But the increase was due to price hikes; tonnage was actually off slightly. The good news: Produce was more profitable than ever.

INSTORE BUSINESS

AT THRIFTY'S, THERE'S A NEW ANGLE ON SERVICE FRANK HAMMEL **57**

They're angling for customers at Thrifty's in Washington State, where a new three-part deli, a coffee bar, and an innovative prepared foods program are highlights of its newest Food Pavilion store.

THE NAME OF PAT'S GAME IS GOOD FOOD FAST MIKE DUFF **69**

The desire for service isn't upscale—working couples need help no matter what their income level. In central Connecticut, Pat's Marketplace is responding with a beefed-up prepared foods section featuring hearty, home-cooked fare.

NONFOODS BUSINESS

A DIM FUTURE FOR SUPERMARKET LIGHTING SALES? HOWARD RIELL **81**

Aided by a bulb revolution, other classes of trade are threatening to run away with the lighting business. Here's what supermarkets can do to keep their share of these high-profit sales.

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IS MORE PROMOTION MONEY GOING SOUTH?

By Ken Partch, Editor-In-Chief

Nothing has such a sobering effect on retailing and wholesaling as recession and disinflation. The latter word I picked up at a recent convention of economists, bean counters and bookcookers. (The word is not really bookcookers, but it's the best I can do in a family/business magazine.)

Disinflation is, apparently, not really deflation, but certainly not inflation. It is a balloon that is leaking very slowly. While prices are not exactly plummeting, they are falling slowly in some categories, and no longer rising in many others. I realize that the definition is rather vague, but the dismal science isn't called dismal for no reason. Why is this important? For a wholesaler it is very important, because if his business is calculated on a fixed cost of moving a case, plus whatever promotional money is available, when prices go down and promotional money begins to dry up, his total revenue declines.

The "found" money that has been slathering the industry is becoming a little harder to find, it seems. This really has some of the players excited, while small cries of "foul" and "unfair" are beginning to be heard. Faint as yet, but there.

We all knew that it couldn't last. We knew that the days of going out into the street with a grocer's apron, holding it up to the sky and watching it fill up with money, could not last. Neither could it be that manufacturers would continue to sit still for all manner of up-front payments, whether for exorbitant new product introductory allowances, pay-to-stay allowances or free-wheeling street money. The tidal wave of money has begun to show signs of ebbing.

And what are manufacturers doing? They're beginning to hold back. They're less free with the off-invoice money, and more choosy about who shall get the end-of-deal, buy-in privileges. Ho, ho, ho, and a Merry Christmas to all, is being heard on the street less frequently. Sometimes, only the selected few are hearing it at all. There is a scurrying in the leaves, and sometimes a faint call: "Hello, partner? Partner? Where is my partner?"

Some time ago, the marketing rallying cry was local marketing and niche marketing. In this scenario, the marketer would know exactly who and where his best consumer customers lurked, and where and how they shopped for what. Much ado was made about this until it finally began to dawn that building such a complex data base was going to cost a lot of money, and was it worth it? This is still being talked about, but probably with more hope than actual belief.

Ho, ho, ho, and a Merry Christmas to all, is being heard on the street less frequently.

Then it was "customer" marketing. "The wave of the future," one advocate told us. Supposedly, one could tailor one's marketing program to suit a particular retail customer—one large enough, of course—and somehow satisfy all the requirements of fair and proportionately equal treatment of all customers. Then some large regional chains (aren't they all?) sent out written notices that any local or regional deals in any markets where they had a store had better be offered to them, too.

Somewhat later, the marketing rallying cry became "partnering." This magic word was somehow going to produce a special relationship between buyer and seller (whereby all sorts of efficiencies became possible) that would produce miraculous sales and profits to everyone's benefit. Whenever it was asked how one marketer could have a special "partnering" relationship with one giant retailer without offending another giant retailer in the same market, one usually noticed a very bad telephone connection where it was difficult to hear and understand the other's response.

Now, two things seem to be happening (or are becoming apparent) that may effect greater change than all the things that have come before. First, some independents and some wholesalers are beginning to realize that they may not be participating in the deals and allowances game on anything like a fair and equal basis.

Wholesalers are realizing that considerable sales promotion money is going directly to retailers (which is where it is supposed to go, to be passed along to the consumer), and that end-of-promotional buy-ins are being offered (it is claimed) only to big chains and not to them. Further, some are convinced that terms of sale are not always the same to all classes of trade. Worse still, many are becoming convinced that manufacturers are shifting the promotional money away from off-invoice allowances to more specific market performances payable on a bill-back basis.

Could it be that the independent retailer and the wholesaler might have something in common after all? Could it be that both are endangered in a free-fall market where anything goes? Could it be that both are endangered species? ■

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BY DAVID LITWAK AND
JANET TORRES CEPEDA

In 1990, supermarket produce sales were up 11.8 percent over the previous year, providing supermarkets with total produce sales of $32.47 billion.

But before nutritionists among us get too excited about an apparent jump in fresh produce's share of the American diet, one other statistic needs to be highlighted: Prices increased, as well, as weather conditions affected supply.

According to the Bureau of Labor Statistics' Consumer Price Index, prices for fresh produce rose an average of 15.6 percent during 1990. So, higher dollars going through supermarket cash registers did not necessarily represent an increase in the tonnage sold. Rather, they simply reflected higher prices of those products.

Indeed, fresh produce tonnage actually fell last year. The amount of fresh produce sold by supermarkets in 1990 was off approximately 3.8 percent. But supermarkets were not alone in experiencing a drop-off in produce tonnage. Total produce dollar sales (through all outlets across all classes of trade) increased only 12.4 percent last year, not enough to keep up with the rise in prices.

When interpreting these dollar sales, price and tonnage figures, it should be kept in mind that in this supermarket department, the relationship between prices, the amount sold, and the amount available for sale has always been complex, with not-entirely-predictable results.

And those three variables are further affected by physical factors such as weather, pests and disease; and by psychological factors like food safety a la Alar on apples.

While these variables and factors also affect sales of processed produce products, their impact is most evident and immediate on fresh produce.

Which is to say, the recent tonnage decline should not necessarily be viewed as a pattern taking shape in the nation's diet. More likely, it's the result of an interplay of the above factors ... i.e., smaller supplies mean higher prices which can mean less demand and, therefore, slower sales.

By that logic, if prices fall somewhat this year, tonnage

Supermarkets typically carry 200 to 300 different produce items. But 43.8 percent of the department's sales comes from just 6 groups of products. Sales of most other items are extremely small.

should increase again.

Though both fruits and vegetables suffered tonnage declines in 1990, fruit was by far the harder hit. True, dollar sales of fresh fruit increased 7.2 percent in supermarkets last year ... but the price increase was more than double that figure: fruit prices increased 15.1 percent. The net-net was a tonnage drop of approximately 7.9 percent.

Vegetables fared better. Fresh vegetable dollar sales were up 15.3 percent, while their price increase was only slightly greater, 16.2 percent. Thus, the actual tonnage loss was a bare 0.9 percent.

Overall, the impact on supermarket produce departments as a whole was ameliorated by the fact that a majority of their produce sales is vegetables ... 58.8 percent from vegetables; 40.1 percent from fruits.

Weekly Sales Up

Tonnage losses notwithstanding, the higher dollars going through supermarket produce departments annually means that, naturally, average weekly sales per department rose proportionately. In 1990, the average produce department's weekly sales were $20,306. This figure is more than $2,100 per week higher than weekly sales for the previous year.

PRODUCE CENSUS SALES & MARGINS

Produce sales rose 11.8% during 1990, reaching an all-time high of $32.47 billion. About 90% of respondents report enjoying higher produce sales for 1990 than they did for 1989. Sales for the remaining 10% matched 1989's levels.

Average weekly produce sales rose above the $20,000 mark last year, reaching $20,306. This brought the produce department's average share of store sales to 9.8%.

With an average gross margin of 36.1%, the produce department typically contributes 18.5% of the store's total profits.

Produce Units

Produce departments	30,780
Percent of all supermarkets	100%

Average Weekly Sales

Mean	$20,306
Median	$19,487

By StoreFormat

Conventional	$8,465
Super Store	$24,471

Change in Dollar Sales

(1990 vs. 1989)

Higher	90
No change	10
Lower	0
Total	100 %
Average reported increase	8.3%

Annual Sales

Sales, Profits & Margins

Share of Total Store Sales
Mean 9.8% Median 9.4%

Contribution to Store Profits
Mean 18.5% Median 18.2%

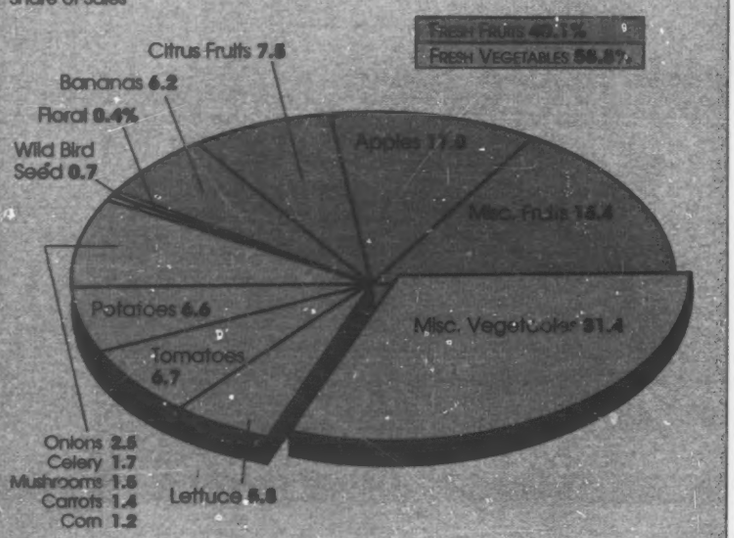
Gross Margin
Mean 36.1% Median 34.9%

PRODUCT MIX

Vegetables represent the largest portion of produce sales. In 1990, vegetables accounted for 58.8% of the department's revenues; fruits brought 40.1%. The remaining 1.1% came from sales of wild bird seed and floral products.

The six largest produce categories are, in order: apples, citrus fruits, tomatoes, potatoes, bananas, and lettuce. Together, they account for almost 44% of department sales. Individually, the rest of the department's 200-odd produce varieties account for sales so much smaller that they are best placed together under "miscellaneous" categories.

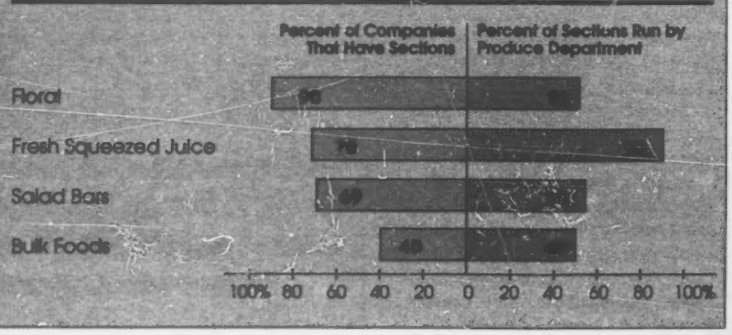
Share of Produce Sales By Item



PRODUCTS

Many supermarkets have special sections or value-added products that are sold through their produce sections. For instance, 90% have some floral offerings. More than half these sections are the responsibility of the produce department. Fresh-squeezed juice stations are another popular feature.

Special Sections


Percent of Companies That Have Sections
Percent of Sections Run by Produce Department
Floral
Fresh Squeezed Juice
Salad Bars
Bulk Foods
100% 80 60 40 20 0 20 40 60 80 100%

The average sales per square foot of produce department space in a superstore ($4.80) are about $1 more than those in a conventional store ($3.76).

These sales increases were seen throughout the industry. Ninety percent of retailers responding to our survey reported higher produce sales for their stores last year. The remaining 10 percent indicated that their produce sales were about the same. No operator reported a decrease in produce sales.

Store Share Gains Big

On average, the produce department accounted for just under 10 percent of store sales. This was almost a full percentage point higher than the figure posted for the previous year. The jump was due largely to the dollar sales rise.

Along with the sales increase came an increase in the average gross margin on produce products, from 34.5 percent in 1989 to 36.1 percent in 1990. This resulted in a produce department share contribution of 18.5 percent to the store's total profits, up from 16.5 percent for the previous year.

What this shows is that, despite a loss of tonnage, the produce department is still able to increase its profit standing in the store: Last year, the produce department sold fewer products, but for more money and at higher profits.

As for distribution of sales and share within the produce category itself, there were few surprises. Varieties that have traditionally dominated the

SPACE, LOCATION & EQUIPMENT

Just under 100 sq. ft. of space was added to the average produce section last year, bringing its size to 4,867 sq. ft. Consequently, produce now occupies, on average, about 12% of total store space.

Produce's average weekly sales per sq. ft. rose in 1990, mainly because sales rose faster than department size. Currently, produce's average weekly sales per sq. ft. are $4.17.

Produce departments continue to increase their array of equipment. To their basic display tables and refrigerated cases, they have added more specialty equipment: Most now have pineapple corers, shrink wrappers, misters and juicers. Random weighing of produce, tied into the stores scanning systems, is now a reality in two-thirds of respondents' stores.

Average Weekly Sales Per Square Foot

Mean	$4.17
By Store Format	
Conventional	$3.76
Super Store	$4.80

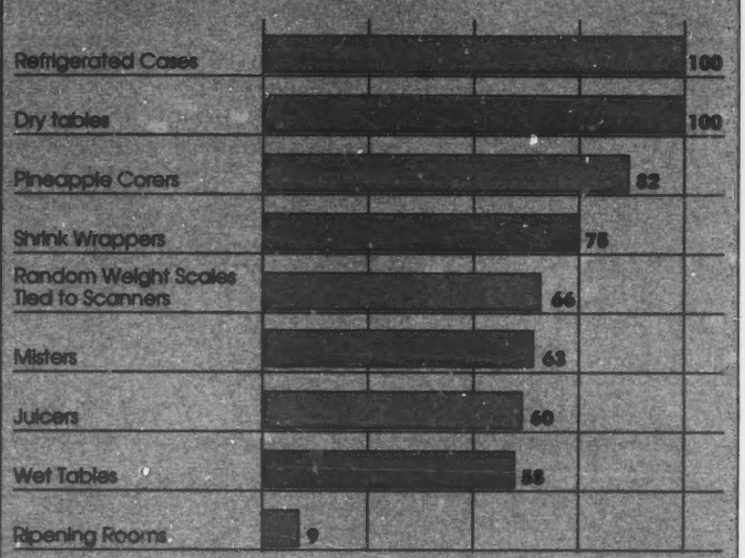
Size of Department

Square Feet of Space	
Mean	4,867 Sq. Ft.
Median	2,910 Sq. Ft.
By Store Format	
Conventional	2,250 Sq. Ft.
Super Store	8,100 Sq. Ft.

Share of Total Store Space	
Mean	12.3%
Median	11.6%
By Store Format	
Conventional	12.6%
Super Store	11.4%

Produce Department Equipment

(Percent of Stores That Have Each Item Below)



LABOR & SERVICE

Labor has become a statistical bright spot for produce operations: In 1990, it took the equivalent of 4.5 full-time employees to run the department, a drop from the 4.9 needed in 1989. With fewer employees and higher produce sales, average weekly sales per employee increased significantly: In 1990, each employee brought in an average of $4,512 per week, up considerably from 1989's $3,711.

Over three-quarters of all produce items sold in 1990 were sold from bulk displays. This preference for bulk merchandising did not change from the previous year.

Number of Employees

Full-time	2.8
Part-time	3.4
Full-time Equivalent	4.5

Full-Time Equivalent Employees

Fewer than 3	1%
3-4	27
5-6	35
7-9	37
Total	100%

*Two part-time=one full-time employee

Average Weekly Sales Per Employee*

Mean	$4,512
$2,000 or less	1%
$2,001 - $3,000	21
$3,001 - $4,000	47
Over $4,001	31
Total	100%

*Full-time equivalent employees

Labor Cost

(Labor as a Percent of Produce Sales)

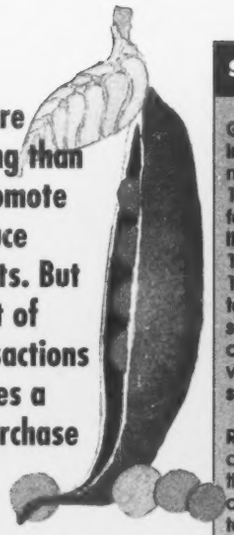
Mean	8.8%
Median	8.1%
8% or less	32%
8%	20
9%	21
10%	27
Total	100%

Items Sold Packaged or Bulk

(Percent of Products)

	Mean	Median
Packaged	24%	26%
Bulk	76%	74%

Retailers are more willing than ever to promote their produce departments. But the percent of store transactions that includes a produce purchase has not changed.



department still dominate it.

On average, a produce department stocks 240 items. But larger departments carry many more, especially during key periods: Approximately 49 percent of respondents' stores offer more than 300 items over the summer. Among these hundreds of items, the top six product groups account for 43.8 percent of all sales. The other 56.2 percent of sales is divided among about 200 different products, none having a produce department share greater than 2.5 percent of sales.

The "Big Six" product groups are apples, citrus fruits, tomatoes, potatoes, bananas and lettuce.

By far the largest-selling group of produce products is apples, whose $3.58 billion accounts for 11 percent of total produce department sales. But that figure was down slightly from the previous year.

Citrus fruits, which include oranges, grapefruits, lemons, limes, tangerines and other citrus varieties, at $2.43 billion account for 7.5 percent of sales. But, like apples, citrus fruits were down slightly from the previous year.

Tomatoes Gain Most Share

Tomatoes, the third largest group in share of sales, showed the largest share increase in 1990. Tomatoes' share increased from 6.3 percent to 6.7 percent on sales of $2.18 billion. Tomatoes thus just squeaked by potatoes in share (potatoes are now 6.6% down from 6.8% in 1989, with sales of $2.14 billion.)

Other products—such as carrots, celery, mushrooms and corn—represent smaller-but-still-significant share of total department sales. But the vast majority of produce items have shares so small that it makes better sense to place them all under catch-all "Miscellaneous" categories.

But those "Miscellaneous" categories are anything but extraneous; together, they add up to the bulk of the department's sales:

Miscellaneous vegetables provide supermarkets with sales of over $10.2 billion. That's 31.4 percent of produce department sales. Miscellaneous fruit reached $4.99 billion, or 15.4 percent of produce department sales. Together, miscellaneous vegetables and fruits account for 46.8 percent of the produce department's volume.

One positive aspect of

SUPPLY

Greater availability of imported products did not mean more items stocked in 1990; in fact, there were fewer. On average, 240 items were displayed in 1990, down from 260 in 1989. Though summer saw temporary increases, summer of 1990 saw an average of just 285 varieties, down from 1989's summer offerings.

Retailers report that virtually all produce is delivered through a warehouse; only about 4% is delivered direct to stores.

Number of Produce Items Stocked

Varieties	Year Round Mean 240	Summer Months Mean 285
100 or less	30%	2%
101-200	15	9
201-300	34	40
Over 300	21	49
Total	100%	100%

Sources of Supply

Delivered Direct to Store	4%
Through Warehouse	96
Total	100%

Use of Locally Grown Products

Mean 12.0%

(Percent of Items)	
Less than 5%	11%
5-9%	12
10-14%	55
15% & Over	22
Total	100%

MERCHANDISING & CUSTOMERS

A bare 1% change was seen in percent of customers making a produce purchase, increasing from 63% in 1989 to 64% in 1990. The size of the average produce transaction increased to $2.71.

The use of signage to educate produce customers in such produce matters as exotics and nutrition increased to 96% of stores in 1990. While 56% of operators make limited use of such signage, 43% claim more extensive use.

How Customers Spend

Percent Who Shop the Produce Department

Mean 64% Median 60%

How Much They Spend	
Mean	$2.71
Under $1.00	13%
$1.01-$2.00	14
$2.01-$3.00	38
$3.01 or more	35
Total	100%

Use of Signage (to Explain Varieties)

	% Companies
Use signage	43%
Limited use of signage	56
No signage	1
Total	100%

ADVERTISING & PROMOTION

Respondents use a mix of media to promote their produce departments. During the past year, they have increased their use of point-of-purchase materials and sampling. This includes the extended use of signage within the department.

Promoting Produce	% Use
Newspapers	100%
Sampling	94
Point of Purchase	94
Circulars	88
Radio	73
Television	60

Produce's Share of Ad Space Compared to Share of Sales

Greater	66%
Less	12
Equal	22
Total	100%

higher dollar sales coming from lower tonnage is that it makes the department's labor appear all the more productive. While there was only a small drop in number of produce employees, each employee produced more sales dollars per person.

In 1990, the average supermarket produce department was staffed by the equivalent of 4.5 full-time employees, down only slightly from the 4.9 employed the previous year. Labor costs generally accounted for 8.5 percent of produce sales.

Sales Per Employee Jump

Since weekly sales in the section are up, the average weekly sales per employee are also up. On average, each full-time-equivalent employee brings in $4,512 per week. This is up considerably from 1989's $3,711.

As for square footage, the size of the typical produce department has not changed much in the past year. In 1990, the average produce section occupied roughly 4,867 sq. ft., up slightly from 1989's 4,774 sq. ft. A superstore is likely to devote over 5,100 sq. ft. to produce, while a conventional store makes do with only about 2,250 sq. ft.

Despite the slight increase in square footage, the produce section still accounts for just 12.3 percent of total store space. This has not really changed in the past year.

Average weekly sales per square foot of produce department space have also been helped by the increase in overall dollar sales of the department. Sales per square foot were $4.17 per week in 1990, up from $3.81 a year earlier. Interestingly, average sales per square foot in a superstore ($4.80) are about $1 more than for a conventional store ($3.76).

When it comes to merchandising, the old method of letting the customer hand-pick his produce still holds sway in better than three-quarters of all supermarkets. Our Produce Operations Review reveals that 76 percent of the produce in the nation's supermarkets is sold in bulk form, with only 24 percent prepackaged.

The ratio of bulk produce to prepackaged did not change from 1989 to 1990. But indications are that it might change in the coming year: Operators report that about 75 percent of their produce departments are now equipped with shrink-wrap machines. A year ago, only about 64 percent of respondents reported having such equipment. If this equipment is available in store, it's a sure bet that operators will use it, packaging more varieties of produce in the future.

Making at least some prepacked produce available may be part of a trend to new services in the produce department. In general, supermarkets appear to be moving more into value-added produce items, at least as reflected by the equipment they're installing. The percentage of produce departments with pineapple corers is now 82 percent. Sixty percent have juicers. Seventy percent of respondents now offer fresh-squeezed juice sections in at least some of their stores. Sixty-nine percent offer their customers the added variety of salad bars.

And to increase the speed and ease of customer transactions, reduce labor, and keep better track of sales, 66 percent of supermarkets now have random-weight scales capable of printing scannable labels or marking produce with a numbered label that allows items to be weighed and logged into the scanner right at front end. A year ago, only 59 percent of supermarkets had this capability.

Saves On Labor

The benefit of this is evident in that it obviates the need to have produce employees weigh each product. It also increases front-end accuracy by properly identifying and properly pricing each item.

There are some non-edible products in the produce department that did very well last year. Non-edible does not refer to a child's description of okra and brussels sprouts, but to wild bird seed and the floral section.

These two small-but-steady performers are usually part of the produce kingdom in the store. Wild bird seed, which can be sold bagged, bulk or in bells, provided 1990 sales of $224 million. That's an increase of about 5.9 percent over the previous year. This does not include sales of caged/pet bird seed (these sales are included in grocery or general merchandise sales totals).

About 90 percent of our respondents indicated that they have a floral section in at least some of their stores. Of these, 53 percent are found in, or are managed by, the produce department. These range from a small display of potting soil with a few houseplants to full-scale flower shops complete with wire-service affiliations and floral design/event services.

Supermarket Floral Up Most

Currently, floral sales are about $134 billion in supermarkets. That's only about 16 percent of the nation's total flower and accessory market. But supermarkets are becoming an ever-more-important outlet for floral products: Supermarket floral sales grew 11.6 percent in 1990, while the floral industry as a whole grew just 5.9 percent.

As for produce department promotion, retailers seem to be more willing to promote their produce sections more aggressively than they have in the past. Sixty-six percent of respondents claim they give their produce sections a greater share of their advertising space and budgets than the department represents in share of store sales; only 50 percent made similar claims a year ago. An additional 22 percent say produce's share of ad exposure is about equal to its share of sales. Only 12 percent devote a lower proportion of ad space to produce.

Newspapers are still the most popular method of advertising the produce section, with virtually 100 percent of respondents using them. Point-of-purchase promotions and sampling were used by 94 percent of the stores, a substantial increase in produce department usage of both these promotional methods.

Has all this promotion and advertising paid off? On an average day in 1990, about 64 percent of all customers made a purchase from the produce department. This is only a slight increase from 1989's 63 percent.

Still, perhaps all that advertising did play a significant part in allowing supermarkets to maintain and even increase their produce dollar sales in the face of last year's higher sales and tonnage declines. ■

One positive aspect of higher dollar sales coming from lower tonnage is that it makes the department's labor appear all the more productive. While there was only a small drop in number of produce employees, in 1990 the department staff produced more sales dollars per person.